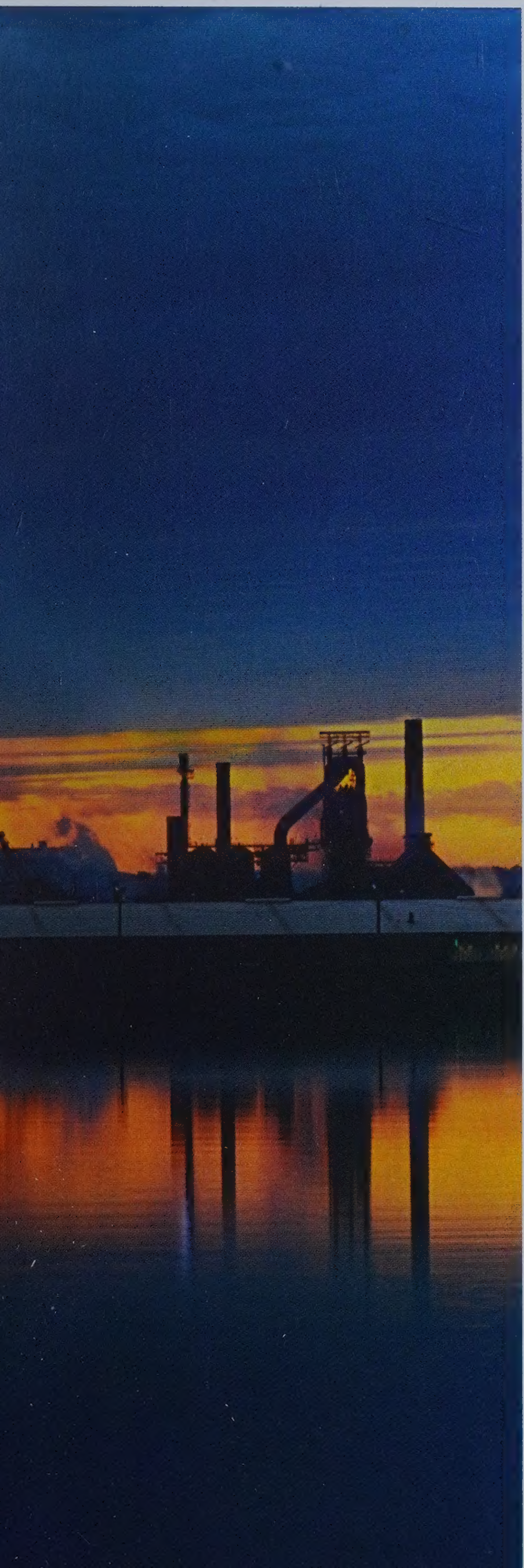
Dominion Foundries and Steel, Limited

Annual Report 1973



Highlights

	1973	1972	Increase (Decrease)
Production of ingots and castings — net tons*	**3,036**	2,773	9.5%
Sales*	**$519,558**	$443,775	17.1%
Net income*	**$ 52,541**	$ 36,123	45.5%
Net income — per common share	**$ 3.29**	$ 2.25	
Net income — percent of sales	**10.1%**	8.1%	
Net income — percent of average common shareholders' equity	**15.8%**	11.8%	
Dividends declared — total*	**$ 16,277**	$ 15,066	8.0%
Dividends declared			
— per common share	**$ .95**	$ .90	5.6%
— per preferred share	**$ 4.75**	$ 4.75	—
Capital expenditures — manufacturing*	**$ 37,566**	$ 28,907	30.0%
Expenditures on mining properties*	**$ 3,162**	$ 2,570	23.0%
Depreciation*	**$ 34,940**	$ 32,922	6.1%
Average number of employees	**10,600**	9,700	9.3%
Number of holders of common shares	**16,272**	16,629	(2.1)%

*In thousands.

On pourra se procurer le texte francais de ce rapport annuel en s'adressant au secrétariat de la Compagnie, case postale 460, Hamilton, Ontario.

The Annual General Meeting of Shareholders will be held at the offices of the Company in Hamilton, Ontario, on Friday, April 26, 1974 at 12:00 o'clock noon.

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Harry N. Bawden George H. Blumenauer John D. Leitch James L. Lewtas Howard J. Lang

S. Robert Blair W. Harold Rea John G. Sheppard Frank H. Sherman William C. Hassel R. Ross Craig Dr. John R. Evans

DIRECTORS

Harry N. Bawden
Director, Dominion Securities Corporation Harris & Partners Limited, Toronto

S. Robert Blair
President and Chief Executive Officer, The Alberta Gas Trunk Line Company Limited, Calgary

George H. Blumenauer
Chairman and President, Otis Elevator Company Limited, Hamilton

R. Ross Craig
Executive Vice President—Commercial

Dr. John R. Evans
President, University of Toronto, Toronto

William C. Hassel
Vice President—Operations

Howard J. Lang
Chairman and Chief Executive Officer, Canron Limited, Montreal

John D. Leitch
President, Upper Lakes Shipping Ltd., Toronto

James L. Lewtas, Q.C.
Partner, Campbell, Godfrey & Lewtas, Toronto

W. Harold Rea
Chairman, Great Canadian Oil Sands Limited, Toronto

John G. Sheppard
Executive Vice President—Financial

Frank H. Sherman
President and Chief Executive Officer

OFFICERS

Frank H. Sherman
President and Chief Executive Officer

R. Ross Craig
Executive Vice President—Commercial

John G. Sheppard
Executive Vice President—Financial

David A. Lindsey
Vice President—Raw Materials, Purchases and Traffic

William C. Hassel
Vice President—Operations

F. John McMulkin
Vice President—Research

William J. Stewart
Vice President—Product Quality and Development

Jack Plumpton
Vice President and Comptroller

David H. Samson
Vice President—Engineering

Paul J. Phoenix
Vice President—Planning

Thomas Van Zuiden
Treasurer

Dorothy M. Cauley
Secretary

Alan D. Laing
Assistant Comptroller

H. Graham Wilson
Assistant Secretary

President's Message

Performance—outstanding

I am very pleased to report that 1973 was the best year in our history. Sales, production and net income set new records as demand for our products remained strong throughout the year. Other factors affecting the year's performance are dealt with in detail in the balance of the Report.

1974 outlook— strong Canadian demand

During 1973, steel was in short supply both in Canada and in world markets. Because of the rapidly changing international energy situation and its effect on the economies of some of the major steel producing countries, it is difficult to predict the global picture for steel in 1974. Production cutbacks and high energy costs may cause balance of payment problems in these countries and could result in increased imports of steel into Canada. However, Canadian demand for steel is strong and we expect the challenge will be to increase production to meet this demand.

During 1974, our total steel production should increase by approximately 7%. Greater output will depend on the availability of major raw materials and the completion, on schedule, of manufacturing facilities designed to increase ingot heating capacity. Details of our raw materials supplies and expansion program are outlined elsewhere in the Report.

Early in 1974, gear problems in the hot mill slabbing equipment resulted in disrupted rolling schedules. While repairs are being made, we have modified our method of production and expect hot mill output will be affected by less than 1% in the year.

Ensuring the availability of basic raw materials now, and providing increased supplies for future expansion, will require substantial capital expenditures. We have an active program to develop additional sources for these essential raw materials.

In recent months, the risk of a possible energy shortage in Canada has been a concern. We hold contracts for natural gas and fuel oil and our suppliers have said that they should have no difficulty in providing our needs during 1974. We also have the advantage of some flexibility in the type of fuel that can be used in major installations.

Planning—doubling capacity

The development of our land next to the existing plant in Hamilton could ultimately double capacity. Our planning group has been expanded and includes personnel from engineering, production, manufacturing controls, commercial research and financial. The task of this group is to plan Dofasco's future expansion to the 6 million ingot ton level. The first major project in this development is the installation of a 5-stand 72 inch tandem cold mill. Further details are outlined in the Engineering section of the Report.

Government tax measures— reduction welcome

Our major expansion program will require substantial investment, much of which will have to come from profits.

The reduction in the tax rate on manufacturing and processing profits and the provision, until the end of 1974, for the rapid write-off of manufacturing and processing assets will help provide capital for expansion. The need, however, is for tax measures of this type extending over a period of years, or preferably, permanently. A major installation in a steel plant now takes three to four years from planning to completion. To properly plan the financing of such projects, it is vital that the tax rates and write-off provisions be known in advance.

Acquisitions

In 1973 we expanded our operations into western Canada with the purchase of Prudential Steel Ltd., Calgary. The company makes electric resistance weld pipe in the 2⅜ through 8⅝ inch range for the oil and gas industry and hollow structural sections with a variety of agricultural and industrial uses. 1973 operations were good and future growth prospects are excellent.

We also purchased a limestone quarry and processing operation near Ingersoll, Ontario. The new company, BeachviLime Limited, will provide our lime product requirements for the foreseeable future.

Board of Directors and Management

It is with deep regret that we report the death of Frederick W. Sherman. Mr. Sherman served as a Director of Dofasco for over 32 years. He was appointed an Honorary Director on April 29, 1966. His interest in the continuing success of Dofasco will be long remembered.

Richard G. Storms retired after 40 years of service. Mr. Storms held a number of important positions including, since 1970, Vice President, Manufacturing Controls. Over the years he made a major contribution to the success of the Company and we wish him many years of happy retirement.

During the year, three vice presidential appointments were made: Jack Plumpton, Vice President and Comptroller—Mr. Plumpton was previously Comptroller; Paul J. Phoenix, Vice President, Planning—Mr. Phoenix was previously Assistant Director, Manufacturing Controls; and David H. Samson, Vice President, Engineering—Mr. Samson was previously Chief Engineer.

Our success, in 1973, was due in large measure to our employees' individual efforts. Throughout the year a high degree of enthusiasm was maintained and I believe that we achieved in 1973 the greatest performance in our Company's history. We look to 1974 with the same optimism and enthusiasm.

Hamilton, Ontario	F. H. Sherman
March 28, 1974	President

Manufacturing

1973 record production of 3,036,027 net tons of ingots and castings was a 9½% increase over '72's record. These excellent operating results were due to full and efficient use of equipment installed in the last few years, the individual and co-operative efforts of our employees, as well as new facilities coming on-stream during the year.

Fast roll changing equipment went into operation on the hot strip mill in April '73. The new facilities resulted in increased production and superior steel surface quality. Extensive investigations into equipment maintenance and operating methods resulted in further improvements to hot rolled surface quality.

Desulphurization facilities helped increase hot metal production from the blast furnaces. Additions to quick

Colin Campbell
Superintendent, Mechanical Maintenance

Bill Wallace
Works Manager

Warren Rombough
Manager Coke and Iron
Production, Environmental Control

chemical analysis equipment reduced production delay times for test results in the steelmaking operation.

The first full year's operation of a computerized system for processing customers' orders contributed to greater efficiency through improved co-ordination of production.

Production planning was expanded resulting in the better use of production facilities. Computer simulation work on operations improved production and provided another tool for future planning.

Achievements in the field of new products included Dofasco's first production run and sale of electrolytic chromium coated plate and trial production runs of flat rolled stainless steel for automobile pollution abatement equipment. In the foundry, a very large prototype valve for oil transmission pipelines was manufactured from steel specially developed for low temperature service in the Arctic.

Paul Phoenix
Vice President Planning

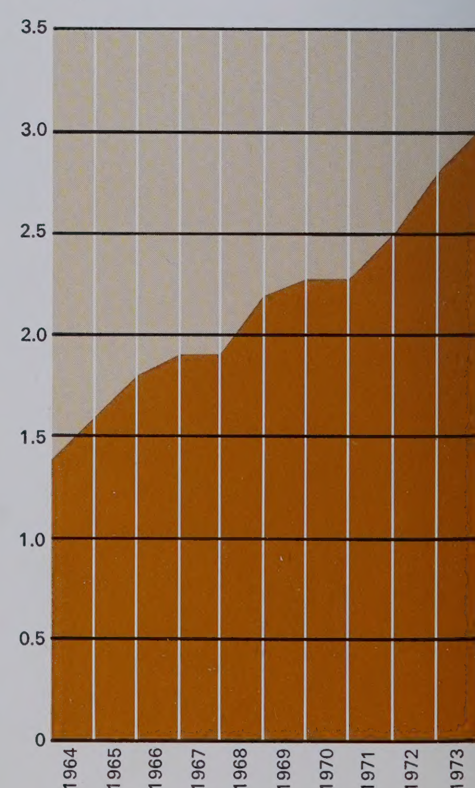
Larry Erhardt
Manager
Manufacturing Controls

Ben Ciprietti
General Supervisor
Manufacturing Controls

Jack Craven
Chief Metallurgist

Howard Bexon
Manager Product Engineering

Tom DiCiccio
Assistant Chief Metallurgist



INGOTS AND CASTINGS PRODUCTION
In millions of net tons

Commercial

Sales—a new record

Strong demand resulted in record sales of $520 million. Greater sales volume, more sales of higher priced products, and improvements in selling prices were all factors in these excellent results.

The Company's offshore sales, traditionally a small percentage of total sales, decreased in '73. This occurred despite higher prices in this market as priority was given to domestic customers.

Shipments of flat rolled products totaled 2,326,663 net tons, an 8.6% increase over '72. Steel castings shipments increased 9% to 35,309 net tons.

Allocation—priority to domestic customers

A domestic steel shortage forced the Company to adopt a sales policy of allocation. Our sales staff worked closely with customers in an effort to satisfy their requirements and maintain good delivery times. Tonnages were allotted to customers based on previous monthly, quarterly and annual buying patterns allowing for volume increases in as fair and equitable a manner as possible. Although this was a difficult task, the great majority of our customers has said that delivery times were maintained and a good job done in determining fair allocations.

Bob Varah
Director Commercial Development

'Chi' Doering
Director Sales Administration

Bill Simon
General Sales Manager

Outlook

The outlook for sales of Dofasco's products in '74 is excellent. Orders on the books for many products extend well into the year and forecasts call for a 5% increase in Canadian steel consumption. Worldwide demand is expected to remain close to capacity for the industry.

Canadian economic growth in real terms over the period ahead will be somewhat slower than the previous 12 months. Business expenditures on plant expansion, machinery and equipment should show strong growth.

Demand for Dofasco's products from most major users should remain firm.

Agricultural machinery sales advanced approximately 29% in '73 and sales in '74 are expected to be up a further 10%. Appliance manufacturers are also predicting increases in sales.

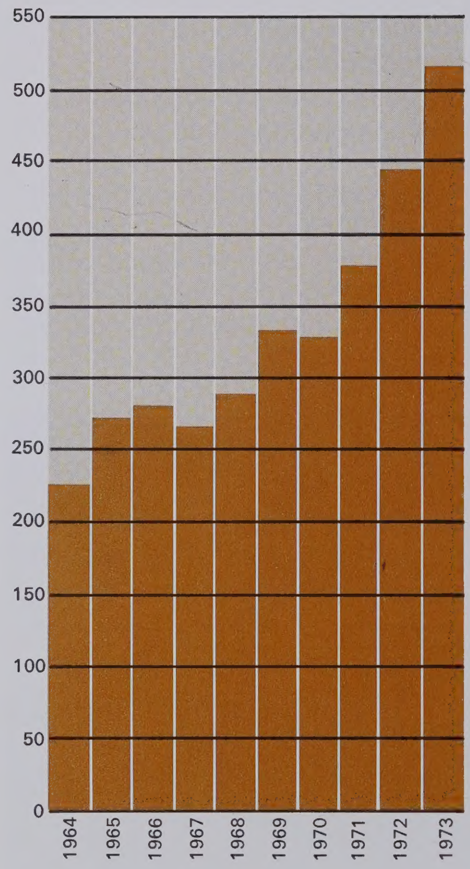
The most significant advances will be made in capital expenditures on non-residential construction, machinery and equipment. This will increase manufacturing capacity and create a stronger demand for Dofasco's flat rolled products.

Through '73 the sale of prepainted steel from our Baycoat operations has experienced tremendous growth. The

construction industry uses large amounts of Precoat, particularly for commercial siding, and the outlook for this product in '74 is excellent.

The major uncertainty is the automotive industry. The energy crisis in the United States has dramatically changed the car-buying pattern of U.S. consumers. U.S. car sales have declined significantly and a shift away from full-size cars to smaller intermediates and compacts has caused production cutbacks of the larger models. Because of the "auto pact" between Canada and the U.S., and despite strong Canadian demand, these cutbacks have also adversely affected Canadian car assembly and parts production. However, it appears that the resulting reduction in steel demand will be taken up by continuing strength in other industries.

Orders on hand for railway rolling stock ensure capacity operations both for Dofasco's foundry and National Steel Car for the rest of the year.



ANNUAL SALES
In millions of dollars

Financial

Bob Grunow
Assistant Comptroller, Financial

Tom Van Zuiden
Treasurer

Graham Wilson
Assistant Secretary

Net income—up significantly

Record production and sales during '73 increased Dofasco's net income to a record $52 million. Earnings per common share were up from $2.25 to $3.29 helping to provide funds for necessary capital expansion programs.

More output and a larger sales volume were major factors in increased earnings from steelmaking operations. In addition, improvements in selling prices of all major product lines helped to offset greater costs and contributed to improved profit margins.

Major raw material costs were up substantially over the previous year. Tin rose by 17%, zinc 23%, coal 11%, while scrap increased by 56%. Electric power costs rose by 12% and employment costs were also up significantly.

Income before taxes as a percentage of sales was 16%. While not up to the levels in the period 1963-69, this was an improvement over the previous year when the margin was 14%.

In '73 the effective rate of income tax decreased to 38% from 41% in '72. As mentioned in the President's Message this was a welcome reduction, and, as a long range policy, would contribute significantly to the funds necessary for capital expansion.

Net income from our iron ore interests declined mainly because of higher costs in the Wabush mining operation. A strike at National Steel Car resulted in decreased earnings in '73. Sales of prepainted steel from the Baycoat operations were excellent and net income improved significantly.

Effective with the dividend payable July 1, '73, quarterly dividends increased from 22½¢ per common share to 25¢. The quarterly dividend has been increased again in '74 to 30¢ per common share payable April 1, '74.

Financial condition and capital structure

Working capital improved by $4,318,000 during '73. Details are set out on page 21. Long term debt was reduced by $33,204,000. A number of items caused this decrease including a $22,700,000 reduction in notes payable and the purchase for cancellation of $2,745,000 in outstanding debentures. Also as the remaining $7,915,000 of the 6⅜% debentures mature in '74, they were reclassified as short term debt.

The Company has $50 million available in firm Canadian bank credit as well as

a U.S. credit of $20 million. At year-end neither of these credits was being used.

At December 31, $20,641,000 was invested in short term securities representing funds surplus to our requirements at that time.

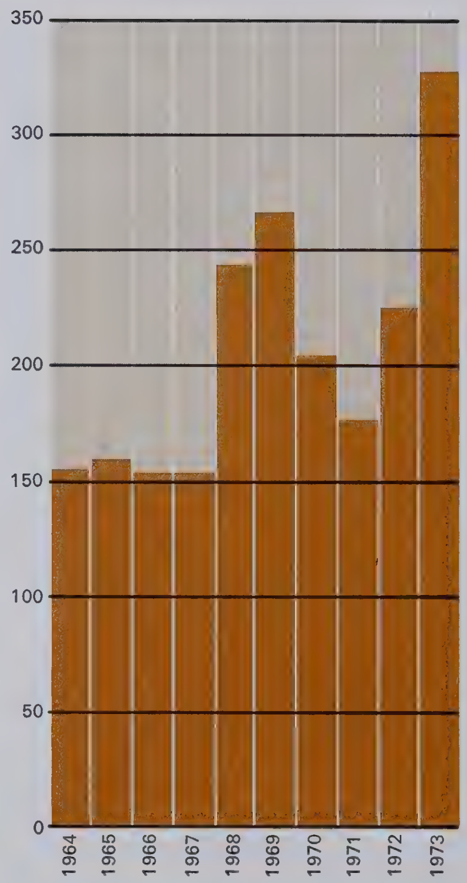
Under the stock option plan 132,002 common shares were issued during '73 for $2,475,000. Options available under this plan expire April 24, '74.

5,650 preferred shares were purchased for cancellation at a cost of $401,000.

Dividends of 95¢ per common share amounted to $15,266,000 for the year. 4¾% preferred share dividends totaled $1,011,000.

Capital expenditures

During '73, capital expenditures for manufacturing equipment were $37,566,000. Iron ore mining capital expenditures totaled $3,360,000. Projects currently under way or completed during '73 are discussed in detail in the Engineering section of the Report.



NET INCOME
Cents per common share

Engineering

Derek O'Brien
Primary, Hot Mill and Foundry
Mechanical Manager

Jim Beggs
Assistant Chief Engineer

A number of projects were started which will play an important part in Dofasco's plans for expanding capacity in the next 10 years.

Preliminary engineering was completed and initial contracts let for a 5-stand 72 inch cold mill, scheduled for completion in late '75. The $50 million mill will increase our cold rolling capacity by 50%.

Dofasco's No. 1 blast furnace is currently undergoing a complete rebuild. This will add approximately 1600 net tons per day to our ironmaking capacity in late '74, a 25% increase.

Six soaking pits under construction will increase the ingot heating capacity of the hot mill by approximately 10%.

A revamping of electrical steel production facilities will be completed in the first part of '74. The project will combine two stages in the production of electrical steels resulting in a cost saving. In addition, a continuous annealing tunnel furnace is expected to begin operations in late '74 and should increase output.

Also under way is the engineering of an oxide recovery plant designed to refine waste oxides into iron-rich material for recycling in the blast furnaces. This is planned for completion in late '75.

Central shipping facilities are being expanded and will result in a doubling of this shipping area.

Construction has begun on an extension to the main office to increase available space by approximately two-thirds. The addition is slated for completion in '75.

Research

Barry Strathdee
Manager Applied
Research

Noel Thomas
Manager Research
Development

During '73, research concentrated on improving production techniques and developing alternatives to present methods.

The oil homogenization system for improving the efficiency of oil injection in blast furnaces was put into production on one furnace and resulted in an 8% reduction in the consumption of coke.

Desulphurization of hot metal was extended from a pilot plant to a production operation. Currently, 50% of this metal is being treated resulting in improved quality and increased quantities of iron. A plant designed to desulphurize all hot metal is under construction.

An extensive series of tests was conducted on a waste oxide recovery process using the research facilities of The International Nickel Company of Canada, Limited. Based on the success of this work, engineering for the production plant has been started.

High strength low alloy steels were developed featuring increased fatigue strength and better formability. These steels are used mainly in the automotive industry.

The Environment

The Ontario Government's air pollution index, an indicator of the degree of air pollution in Ontario communities, showed a definite decline in Hamilton over the last three years. According to the Ministry of the Environment, the average annual index reading has dropped from 18 in '71 to 14 in '73. Both numbers are well within the level considered acceptable by the Government. During the same period, the number of times the index exceeded 32 decreased from 23 to 2. These results are encouraging and our program, together with abatement projects undertaken by other Hamilton industries and the City, will result in further improvements in both air and water quality.

The rebuild of the No. 1 blast furnace was started in '73 and extensive additions and renovations are being made to its abatement equipment. These facilities will serve as a pattern for further improvements to the Company's three other blast furnaces.

The intermittent emissions of black smoke during the loading and unloading of the coke ovens has been a problem for the steel industry for some time. New equipment and modifications of loading procedures have eliminated 75% of emissions during the loading operations. In '73 engineering began for facilities to reduce the coke oven unloading problem. This equipment should be ready by mid '75.

In the oxygen steelmaking division, work is proceeding on a method for reducing emissions during the charging and tapping of the basic oxygen furnaces. Also, improvements in process gas cleaning equipment were completed and are in operation. In '73 changes in the method of cutting scrap reduced particulate emissions from this operation.

A cold mill waste treatment plant is nearing completion. Partial operation is slated to begin in the first half of '74.

Installation and maintenance costs for pollution abatement equipment continue to be significant. Since 1969 capital expenditures for abatement equipment have totaled over $27 million. Operating costs for '73 rose by 33% over '72 and totaled $4 million.

Employee Relations

Ron Belding
Supervisor Wage
and Salary Administration

Bill Tinsley
Assistant Director of Personnel

Ross Wilby
Assistant to the Director
of Personnel

A company's future growth and prosperity depend on many factors, not the least of which is its ability to attract and keep good employees. During '73, we continued to provide wage and fringe benefit programs which meet, and in some cases, surpass those offered by the industry.

Profit sharing—plan improved

Our profit sharing plan, established in 1938, was developed to allow employees, in the steel manufacturing operation, to share in the profits they helped earn and provide financial security for their retirement. Significant improvements in the plan were made in '73. In the past, the amount allotted to the profit sharing fund was based on 11% of steelmaking pre-income tax profits to a maximum of $1,200 for the $200 contributed by each member. With the change, 11% of these profits will continue to be allotted to fund members but no upper limit will apply.

Suggestion system

The suggestion system was revised and the maximum award for an adopted suggestion was increased from $20,000 to $30,000. Under the new system the number of people eligible to receive awards was broadened to include everyone at the Company's steel manufacturing operation except the senior management group.

Raw Materials

Jack Wyatt
Assistant Manager, Purchasing

Doug McArthur
Manager, Purchasing

Jack McAllister
Director, Purchases & Traffic

Maintaining adequate supplies of raw materials required constant attention throughout '73. In addition, the cost of these materials increased substantially.

The Company has ownership interests in three iron ore mines. The Adams Mine had an excellent year with record production. In March '73 the Sherman Mine shipped its 5 millionth ton. Since beginning operations in '68, this mine has been a reliable source of consistent quality iron ore pellets. Production in '73 was about the same as the previous year. Output at Wabush Mines was below expectations.

Based on current annual mine production levels, it is estimated that the presently proven ore reserves are sufficient to enable production to continue for 25 years at Adams Mine, 26 years at Sherman Mine and 64 years at Wabush.

Total iron ore requirements in '74 will be approximately 3.7 million gross tons. 3.2 million will come from our ownership interests. In early '74, Dofasco announced it was acquiring an ownership interest in the Eveleth Taconite Company, an iron ore mining and processing facility in Minnesota. A major expansion is planned to be ready by mid '76. When completed, approximately 600,000 gross tons of pellets will come annually to Dofasco.

Consumption of coal during '74 will be approximately 2 million net tons. About 95% of this material is provided through long term agreements and the Company's ownership interest in Itmann Coal of West Virginia. We believe our '74 coal supply position to be satisfactory but there is some cause for concern. The contract of the United Mine Workers in the U.S. ends November 12, 1974 and should labour difficulties arise, this could cause coal shortages. Also, high quality metallurgical coking coal is in short supply in the United States, which has been the traditional supplier of the Canadian steel industry. Dofasco is investigating the economic feasibility of western Canadian sources for coal.

Public Affairs

Public relations and advertising

We believe that effective communications with our many publics is an important factor in the long term success of the Company. During '73 our successful program of radio advertising using the slogan "Our product is steel. Our strength is people." was maintained and broadened. The program was extended into Quebec and commercials using the same basic theme can now be heard in French on major radio stations in that province.

Communications with employees were expanded when *"News & Views"*, Dofasco's employee publication was increased from eight to twelve issues per year and a survey was conducted to ensure its contents were of continuing interest to employees. The *Dofasco Illustrated News* was also significantly improved and continues to be an effective way to tell the Dofasco story.

Community relations

We are proud of the contribution made to the community by Dofasco people. Last year employees at all levels contributed to the community through their active participation in major charitable and cultural groups.

Changes were made in the area of corporate giving. Our donations committee considered the hundreds of requests received during the year and donations were made to those causes that were considered most worthy.

Government relations

Last year, as in the past, an increasing amount of executive time was spent dealing with government related matters. We recognize that the influence of governments on business is large and growing. We, therefore, make every effort to keep informed and to maintain regular communication between Company officials and elected representatives.

At the provincial level, we were encouraged by the recent approach of the Government of Ontario. By publishing "green papers", the Government is asking for public response and discussion on issues before selecting any particular method of implementation. Requesting comments before setting policy or introducing legislation is an excellent method of revealing future problems.

In our brief to the Ontario Ministry of the Environment regarding the "green paper on environment assessment", we commented on the urgent need for the long range planning of land use in Ontario. The Government, in co-operation with local municipalities, should accelerate official land use planning in much of the province. While it is the prime responsibility of the local municipalities to begin such planning, it should be done in conjunction with the Provincial Government and be consistent with overall provincial planning and objectives.

At the federal level, Company and employee representations succeeded in maintaining the continuation of the policy that permits lump sum withdrawals from our profit sharing fund.

We have emphasized our belief that improved business/government relations are desirable and necessary. We will continue our efforts to maintain good communications and co-operation with governments at all levels.

Auditors' report

To the Shareholders of
Dominion Foundries and Steel, Limited:

We have examined the consolidated balance sheet of Dominion Foundries and Steel, Limited as at December 31, 1973 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies at December 31, 1973 and the results of their operations and the source and application of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hamilton, Canada,
January 21, 1974

CLARKSON, GORDON & CO.
Chartered Accountants

Consolidated statement of income and retained earnings for year ended December 31, 1973

(with comparative figures for 1972—in thousands of dollars)

	1973		1972	
INCOME				
Sales		$519,558		$443,775
Cost of sales (excluding the following items)	$384,343		$334,255	
Depreciation	34,940		32,922	
Allotted for employees' profit sharing	10,033		6,774	
Interest on long term debt (less discount on purchase of debentures)	7,580	436,896	9,053	383,004
Income from operations		82,662		60,771
Income from investments (including corporate joint ventures, 1973—$1,145; 1972—$582)		2,079		852
Income before income taxes		84,741		61,623
Income taxes		32,200		25,500
Net income for year		$ 52,541		$ 36,123
Net income per common share (after preferred dividends)		$3.29		$2.25
RETAINED EARNINGS				
Balance at beginning of year		$253,203		$231,979
Add:				
Net income for year	$ 52,541		$ 36,123	
Discount on preferred shares purchased for cancellation	164	52,705	167	36,290
		305,908		268,269
Deduct dividends declared:				
Preferred shares	1,011		1,040	
Common shares (1973—95¢; 1972—90¢)	15,266	16,277	14,026	15,066
Balance at end of year		$289,631		$253,203

See accompanying notes to consolidated financial statements

Dominion Foundries and Steel, Limited

(INCORPORATED UNDER THE LAWS OF CANADA)

Consolidated balance sheet, December 31, 1973

(with comparative figures at December 31, 1972—in thousands of dollars)

	1973	1972
ASSETS		
Current:		
Cash	$ 11,646	$ 6,216
Investment in short term securities at cost and accrued interest (approximating market value)	20,641	10
Accounts receivable	61,679	66,606
Inventories (note 2)	113,073	104,212
Total current assets	207,039	177,044
Fixed (note 3):		
Land, buildings and equipment at cost	776,935	733,450
Less accumulated depreciation	329,741	295,944
	447,194	437,506
Investments (note 4)	11,157	11,341
Sundry Assets (note 9)	2,444	2,672
	$667,834	$628,563

On behalf of the Board:

H. N. Bawden, Director

F. H. Sherman, Director

	1973	1972
LIABILITIES		
Current:		
Bank indebtedness	**$ 2,855**	$ 6,256
Accounts payable and accrued charges	**63,544**	43,575
Amounts payable for employees' profit sharing	**8,783**	6,774
Income and other taxes payable	**12,403**	13,505
Dividends payable	**4,181**	3,768
Current requirements on long term debt (note 5)	**8,035**	246
Total current liabilities	**99,801**	74,124
Long Term Debt (note 5)	**80,719**	112,963
Deferred Income Taxes	**120,100**	112,600
Shareholders' Equity (notes 6 and 7):		
Preferred shares	**21,088**	21,653
Common shares	**56,495**	54,020
Retained earnings	**289,631**	253,203
Total shareholders' equity	**367,214**	328,876
	$667,834	$628,563

See accompanying notes to consolidated financial statements

Notes to consolidated financial statements, December 31, 1973

(1) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, National Steel Car Corporation, Limited, Prudential Steel Ltd., and BeachviLime Limited. The results of operations of the subsidiaries acquired during the year are included in the consolidated statement of income from the date of acquisition.

All the issued and outstanding shares and demand notes payable of Prudential Steel Ltd. were acquired effective April 1, 1973 for a cash consideration of $4,382,000. This acquisition has been treated as a purchase for accounting purposes as follows:

Book value of net assets acquired	$2,428,000
Excess of cost of investment over book value	1,954,000
Purchase consideration, being the fair value of the net tangible assets acquired	$4,382,000

BeachviLime Limited was incorporated by the Company during the year to operate a limestone quarry in Beachville, Ontario.

The Company also has an undivided interest in two unincorporated joint ventures—a 90% interest in the Sherman Mine and a 16.4% interest in Wabush Mines. The Company's share of the assets, liabilities and expenditures of these joint ventures is included in the accompanying financial statements under the appropriate captions.

(2) Inventories	**1973**	1972
Materials and supplies	**$ 52,955,000**	$ 50,745,000
Work in process and finished products	**60,118,000**	53,467,000
	$113,073,000	$104,212,000

Inventories are valued at the lower of average cost and realizable value.

(3) Fixed assets	**1973**	1972
Manufacturing facilities and equipment at cost	**$642,960,000**	$602,039,000
Iron ore projects at cost	**133,975,000**	131,411,000
	776,935,000	733,450,000
Less accumulated depreciation	**329,741,000**	295,944,000
	$447,194,000	$437,506,000

Depreciation has been provided on a straight line basis to amortize the depreciable assets over their estimated useful lives.

The unexpended portion of authorized capital projects at December 31, 1973 amounted to approximately $148,000,000.

(4) Investments	**1973**	1972
Investment in corporate joint ventures, accounted for by the equity method:		
Shares	**$ 1,090,000**	$ 927,000
Advances, notes and mortgage bonds	**4,670,000**	6,250,000
	5,760,000	7,177,000
Coal companies, at cost:		
Shares	**435,000**	435,000
Advances	**4,962,000**	3,729,000
	5,397,000	4,164,000
	$ 11,157,000	$ 11,341,000

(5) Long term debt	**1973**	1972
6⅝% debentures maturing 1974	**$ 7,915,000**	$ 9,246,000
6½% debentures maturing 1987	**29,849,000**	31,263,000
9% debentures maturing 1991	**50,000,000**	50,000,000
Short term notes payable (see below)	—	22,700,000
Term bank loan of Prudential Steel Ltd.	**990,000**	—
Outstanding at December 31	**88,754,000**	113,209,000
Less current requirements	**8,035,000**	246,000
	$ 80,719,000	$112,963,000

Requirements for repayment within the next five years are as follows: 1974—$8,035,000; 1975—$ 120,000; 1976—$2,619,000; 1977—$3,010,000; 1978—$3,010,000.

Revolving bank credit (none of which is being used at December 31, 1973) is available to the Company as follows:

(a) $50,000,000 Canadian credit, convertible at annual intervals to December 31, 1974 into a five-year term loan bearing interest at ½ of 1% in excess of the prime commercial rate.

(b) $20,000,000 U.S. credit, terminating December 31, 1976.

As the revolving bank credit is available to replace the short term notes, these notes have been classified, when issued, as long term debt. As one of the terms of borrowing in the short term money market the Company intends not to use revolving bank credit to the extent of the total amount of short term notes outstanding.

(6) Preferred shares

Authorized—500,000 preferred shares of the par value of $100 each, issuable in series.

Issued —250,000 4¾% cumulative preferred shares, Series A, redeemable at the Company's option at a premium of $2 to June 1, 1977 and reduced amounts thereafter, of which 210,875 shares are outstanding (1972—216,525).

To December 31, 1973, 39,125 shares have been purchased for cancellation (including 5,650 shares during 1973 for $401,000) as a result of which the Company has met its obligations to that date with respect to the purchase fund requirements. In compliance with Section 62 of the Canada Corporations Act, retained earnings of $3,913,000 are designated as capital surplus.

(7) Common shares

Authorized—25,000,000 common shares of no par value.

Issued and outstanding—15,737,002 shares (1972—15,605,000).

A plan was adopted in 1964 authorizing employee stock options, which options expire April 24, 1974 covering a maximum of 480,000 common shares. To December 31, 1973, 383,806 common shares have been issued under this plan (including 132,002 shares issued during 1973 for cash, $2,475,000).

At December 31, 1973 the options of directors and officers to purchase an aggregate of 9,960 common shares at $18 were outstanding. No options are held by directors who are not full time employees.

The disclosure of fully diluted earnings per share, derived from the possible exercise of outstanding stock options, has been omitted as the effect is immaterial.

(8) Retirement plans

The companies have funded retirement plans covering substantially all of their employees. Costs charged against income in the year include amounts for current and past service.

The estimated unfunded past service costs, not included in the accompanying financial statements at December 31, 1973, were $8,200,000 and these will be paid and charged against income over periods not exceeding sixteen years.

(9) Statutory information

Expenses for 1973 include remuneration of directors and officers as follows:

(a) fees of twelve directors	$ 57,000
(b) remuneration of twelve officers (including four directors)	847,000
Total remuneration of directors and officers	$904,000

The above includes directors' fees paid by National Steel Car Corporation, Limited of $2,550 and Prudential Steel Ltd. of $900.

Sundry assets include unamortized debenture issue expenses, $626,000.

Consolidated statement of source and application of funds for year ended December 31, 1973

(with comparative figures for 1972—in thousands of dollars)

	1973	1972
SOURCE OF FUNDS:		
Operations		
Net income for year	$ 52,541	$ 36,123
Depreciation	34,940	32,922
Deferred income taxes	7,330	8,400
Funds from operations	94,811	77,445
Common shares issued for cash	2,475	1,099
Decrease in investments	184	—
Other changes (net)	398	—
	97,868	78,544
APPLICATION OF FUNDS:		
Purchase of Prudential Steel Ltd. for $4,382 cash, less working capital at acquisition, $1,640 (note 1)	2,742	—
New facilities and equipment		
Manufacturing	37,566	28,907
Iron ore projects	3,360	3,043
Reduction in long term debt	33,204	17,742
Preferred shares purchased for cancellation (less discount)	401	483
Dividends to shareholders	16,277	15,066
Increase in investments	—	5,742
Other changes (net)	—	137
	93,550	71,120
INCREASE IN WORKING CAPITAL	4,318	7,424
WORKING CAPITAL AT BEGINNING OF YEAR	102,920	95,496
WORKING CAPITAL AT END OF YEAR	$107,238	$102,920

See accompanying notes to consolidated financial statements

Ten year summary of production and financial data

	1973	1972	1971
Statement of income data			
Sales*	**$519,558**	$443,775	$380,723
Cost of sales (excluding the following items)*	**$384,343**	$334,255	$295,011
Depreciation*	**$ 34,940**	$ 32,922	$ 28,764
Allotted for employees' profit sharing*	**$ 10,033**	$ 6,774	$ 5,429
Interest on long term debt (less discount on purchase of debentures)*	**$ 7,580**	$ 9,053	$ 8,245
Income from investments*	**$ 2,079**	$ 852	$ 1,145
Income before income taxes*	**$ 84,741**	$ 61,623	$ 44,419
Income taxes*	**$ 32,200**	$ 25,500	$ 16,400
Net income for year*	**$ 52,541**	$ 36,123	$ 28,019
Financial position data			
Working capital*	**$107,238**	$102,920	$ 95,496
Fixed assets*—land, buildings and equipment at cost	**$776,935**	$733,450	$702,283
—accumulated depreciation	**$329,741**	$295,944	$263,805
Total other assets*	**$ 13,601**	$ 14,013	$ 8,134
Capital employed*	**$568,033**	$554,439	$542,108
Long term debt*	**$ 80,719**	$112,963	$130,705
Deferred income taxes*	**$120,100**	$112,600	$104,200
Total shareholders' equity*	**$367,214**	$328,876	$307,203
Statistical data			
Production of ingots and castings—net tons*	**3,036**	2,773	2,468
Net income per common share (after preferred dividends)	**$ 3.29**	$ 2.25	$ 1.74
Net income—percent of sales	**10.1%**	8.1%	7.4%
Net income—percent of average capital employed	**9.4%**	6.6%	5.5%
Net income—percent of average common shareholders' equity	**15.8%**	11.8%	9.7%
Net worth per common share	**$ 21.99**	$ 19.69	$ 18.33
Cash flow*†	**$ 94,811**	$ 77,445	$ 66,233
Cash flow per common share	**$ 6.02**	$ 4.96	$ 4.26
Dividends—per common share	**$ .95**	$ .90	$ .90
—per preferred share	**$ 4.75**	$ 4.75	$ 4.75
Income reinvested in the business*	**$ 36,264**	$ 21,057	$ 12,980
Capital expenditures—manufacturing*	**$ 37,566**	$ 28,907	$ 52,029
Expenditures on mining properties*	**$ 3,162**	$ 2,570	$ 32,916
Total dividends declared*	**$ 16,277**	$ 15,066	$ 15,039
Number of holders of common shares	**16,272**	16,629	17,958
Percentage of shares held in Canada	**96.4%**	96.2%	95.7%
Average number of employees	**10,600**	9,700	9,300

*in thousands.

†Cash flow—net income plus depreciation and deferred income taxes in the year.

1970	1969	1968	1967	1966	1965	1964
$331,658	$332,610	$280,128	$265,083	$271,086	$268,347	$229,194
$247,988	$235,522	$197,226	$195,860	$199,164	$195,227	$162,100
$ 26,246	$ 26,387	$ 24,570	$ 20,465	$ 17,504	$ 14,548	$ 13,114
$ 5,623	$ 6,493	$ 5,893	$ 4,776	$ 5,201	$ 3,356	$ 3,161
$ 3,977	$ 3,530	$ 4,867	$ 4,924	$ 3,569	$ 2,611	$ 2,169
$ 1,578	$ 3,113	$ 2,302	$ 908	$ 609	$ 904	$ 324
$ 49,402	$ 63,791	$ 49,874	$ 39,966	$ 46,257	$ 53,509	$ 48,974
$ 16,300	$ 21,800	$ 11,500	$ 15,400	$ 21,700	$ 27,900	$ 25,517
$ 33,102	$ 41,991	$ 38,374	$ 24,566	$ 24,557	$ 25,609	$ 23,457
$ 78,751	$ 83,392	$ 91,510	$ 79,337	$ 69,949	$ 76,767	$ 52,769
$618,838	$546,307	$501,156	$480,353	$435,935	$356,824	$314,063
$236,215	$210,433	$184,378	$160,569	$140,792	$125,115	$112,627
$ 7,501	$ 7,533	$ 7,557	$ 9,820	$ 10,229	$ 7,929	$ 5,774
$468,875	$426,799	$415,845	$408,941	$375,321	$316,405	$259,979
$ 80,530	$ 58,100	$ 68,624	$ 86,881	$ 79,436	$ 52,444	$ 55,953
$ 94,750	$ 93,750	$101,256	$101,617	$ 88,676	$ 69,770	$ 50,710
$293,595	$274,949	$245,965	$220,443	$207,209	$192,903	$152,100
2,322	2,279	2,180	1,879	1,877	1,785	1,584
$ 2.07	$ 2.64	$ 2.41	$ 1.52	$ 1.52	$ 1.61	$ 1.53
10.0%	12.6%	13.7%	9.3%	9.1%	9.5%	10.2%
7.4%	10.0%	9.3%	6.3%	7.1%	8.9%	10.0%
12.2%	17.2%	17.8%	12.4%	13.3%	15.5%	16.3%
$ 17.48	$ 16.29	$ 14.43	$ 12.71	$ 11.83	$ 10.91	$ 9.90
$ 60,348	$ 60,872	$ 62,583	$ 57,972	$ 61,073	$ 59,217	$ 50,228
$ 3.89	$ 3.93	$ 4.05	$ 3.76	$ 3.97	$ 3.85	$ 3.27
$ .87½	$ .80	$ .70	$ .60	$ .60	$ .57½	$ .48¾
$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 4.75	$ 3.17	$ —
$ 18,470	$ 28,534	$ 26,443	$ 14,150	$ 14,132	$ 15,974	$ 15,972
$ 69,873	$ 43,016	$ 18,449	$ 22,748	$ 56,906	$ 38,244	$ 37,691
$ 2,735	$ 3,915	$ 3,499	$ 23,320	$ 27,494	$ 6,816	$ 15,969
$ 14,632	$ 13,457	$ 11,931	$ 10,416	$ 10,425	$ 9,635	$ 7,485
19,511	20,183	20,444	19,696	19,805	18,818	15,924
95.0%	94.2%	93.7%	92.7%	90.5%	90.0%	90.1%
8,600	8,600	7,800	8,100	8,400	8,600	7,600

SUBSIDIARIES	Percentage Ownership
National Steel Car Corporation, Limited, Hamilton, Ontario*	100.0%
Prudential Steel Ltd., Calgary, Alberta*	100.0%
BeachviLime Limited, Beachville, Ontario*	100.0%
MINING INTERESTS	
Adams Mine, Kirkland Lake, Ontario*	100.0%
Sherman Mine, Temagami, Ontario*	90.0%
Wabush Mines,* comprising: Scully Mine, Wabush, Newfoundland Arnaud Pellets, Pointe Noire, Quebec	16.4%
Kimberley Ventures, Australia	13.3%
Bandalup Ventures, Australia	11.4%
Itmann Coal Company, West Virginia†	9.0%
CORPORATE JOINT VENTURES	
Baycoat Limited, Hamilton, Ontario†	50.0%
International Portable Pipe Mills Ltd., Alberta†	45.1%
Arnaud Railway Company, Quebec†	16.4%
Knoll Lake Minerals Limited, Newfoundland†	9.5%
Northern Airport Limited, Newfoundland†	8.2%
Northern Land Company Limited, Newfoundland†	8.2%
Twin Falls Power Corporation, Limited, Newfoundland†	2.8%
Wabush Lake Railway Company, Limited, Newfoundland†	16.4%

TRANSFER AGENTS AND REGISTRARS

National Trust Company, Limited—Toronto, Montreal, Vancouver, Winnipeg, Calgary

Canada Permanent Trust Company—Halifax

The Bank of Nova Scotia Trust Company of New York—New York

*Ownership interest consolidated in Financial Statements

†Included under "Investments" in Financial Statements

Our product is steel.
Our strength is people.

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